G-999/CI-91-188 ORDER REQUIRING GAS UTILITIES TO FILE FINANCIAL INCENTIVE PROPOSALS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson	Chair
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner
Patrice M. Vick	Commissioner

In the Matter of a Summary Investigation into Financial Incentives for Encouraging Demand-Side Resource Options for Minnesota Gas Utilities

ISSUE DATE: October 18, 1991

DOCKET NO. G-999/CI-91-188

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PROCEDURAL HISTORY

I. Proceedings to Date

On April 10, 1991 the Commission issued its ORDER SOLICITING COMMENTS in this docket. In that Order the Commission initiated an investigation into the desirability of giving gas utilities financial incentives to engage in demand-side management activities. The Order required all gas utilities to file a description of their current demand-side management activities and to comment on the following issues:

1. Current barriers to investment in demand-side resources;

2. Need for financial incentives to encourage demand-side investment; and

3. Kinds of financial incentives which would be most beneficial.

The Order also encouraged comments from other interested parties.

The following parties filed comments in response to the Order: Minnegasco, Inc., Northern States Power Company, Peoples Natural Gas, Midwest Gas, Northern Minnesota Utilities, Great Plains Natural Gas Company, the Department of Public Service, the Residential Utilities Division of the Office of the Attorney General, Minnesotans for an Energy Efficient Economy, and an association of Minnesota taconite producers.

The matter again came before the Commission on September 17, 1991.

FINDINGS AND CONCLUSIONS

II. Historical Background

Minnesota has long considered energy efficiency, conservation, and demand side management important regulatory goals. In February 1991 the Commission concluded an investigation into financial incentives for demand side management by electric utilities by requiring those utilities to file financial incentive proposals. Less than a month later, the Commission initiated this investigation into financial incentives for gas utilities.

A short time later, the Legislature underscored the importance of demand side management in new legislation known as the Omnibus Energy Act, Act of May 28, 1991, ch. 235, 1991 Minn. Sess. Law Serv. (West). Among other things, that Act required utilities to spend specified percentages of gross revenues on energy conservation improvements and authorized the Commission to order them to file financial incentive plans.

III. Incentive Filings Required

The Commission finds that it is sound regulatory policy to require gas utilities to file proposals for financial incentives to promote demand side management. Although energy efficiency and conservation are important goals, they appear to conflict, at least in the short term, with utilities' natural self interest in maximizing profits. This is especially true for gas utilities, which seldom benefit from reduced usage by being able to postpone expensive capacity additions.

The Commission will therefore require all gas utilities to file financial incentive proposals. By doing this, the Commission is not finding that financial incentives are in the public interest and should become a permanent part of gas utility ratemaking. It may turn out that financial incentives are useful primarily as devices to ease the transition from supply side management to a combination of supply side and demand side management. It may turn out that the role of financial incentives should be limited to encouraging utilities to find and implement the most cost effective conservation programs possible. For now, however, the Commission is convinced that the public interest requires serious consideration of financial incentive programs designed by individual utilities to increase their individual use of demand side management.

A. Consultation with Stakeholders

The statute requires that "[i]n developing the incentive plans the commission shall ensure the effective involvement of interested parties. . . ." Act of May 28, 1991, ch. 235, subd. 6c (a), 1991 Minn. Sess. Law Serv. (West). Clearly, utilities must work with affected persons and organizations if they hope to develop credible, workable incentive plans. Utilities, large and small customers, state regulatory agencies, and public interest groups all have unique perspectives and expertise to bring to the incentive development effort. The Commission will therefore require that utilities consult with stakeholders in developing their financial incentive proposals.

B. Nature of Proposals

Financial incentives to promote demand side management are fairly new regulatory phenomena. It is important at this stage to encourage creativity and innovation, and the Commission therefore will not impose detailed requirements for proposed plans. Proposed plans should, however, be developed in light of the following principles.

Utilities should tailor their incentive plans to meet their own individual needs. For example, utilities with a large industrial customer base face different demand side challenges than utilities which primarily serve residential customers. Their financial incentive plans should reflect these differences.

Another challenge facing gas utilities is developing cost effective demand side management programs. This is much more difficult for gas utilities than electric utilities. The Commission is committed to achieving maximum cost effectiveness, however, and expects financial incentives to be tied to cost effectiveness.

Similarly, financial incentives should be tied to achieving objective demand side goals. Awarding financial incentives for spending money without results would serve no useful purpose and would undermine the legislative goal of achieving significant reductions in Minnesota energy use.

C. Time Frame for Filings

A general rate case is the natural vehicle for consideration of the issues raised by financial incentives for demand side management. Utilities planning to file general rate cases in the near term can and should include their financial incentive filings in their rate case filings. Demand side management, including financial incentives, is too important, however, for the Commission to defer incentive filings for other utilities. The Commission will therefore require all utilities to make a financial incentive filing, either as part of a general rate case or otherwise, by June 1, 1992.

D. Midwest Gas Excepted

One gas utility, Midwest Gas, is already implementing a financial incentive program as a pilot project. The Commission will therefore exempt Midwest Gas from filing a proposed financial incentive program under this Order.

ORDER

1. All regulated natural gas utilities within the State of Minnesota, with the exception of Midwest Gas, shall file financial incentive proposals on or before June 1, 1992.

2. The financial incentive proposals required above shall be tailored to meet the specific needs of individual utilities, shall be tied to actual achievement of cost effective demand side management, and shall be developed in consultation with stakeholders and state regulatory agencies.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)